

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 AGR-05

FEA-01 /094 W

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R 190440Z AUG 75

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 9803

INFO AMCONSUL HONG KONG

LIMITED OFFICIAL USE SECTION 1 OF 2 JAKARTA 10125

E.O. 11652: N/A

TAGS:

SUBJECT: INDONESIAN FINANCES

REF: JAKARTA 6626

1. SUMMARY. RECENT RUMORS IN JAKARTA HAVE INDICATED INDONESIAN FOREIGN EXCHANGE RESERVES HAVE FALLEN ALARMINGLY, WITH LEVELS AS LOW AS \$150 MILLION C D CITED. EMBASSY BELIEVES LOW ESTIMATES INCORRECT AND PROBABLY BASED ON MISINTERPRETATION OF INTERNAL GOI STATISTICS. RECENT CONVERSATIONS INDICATE THAT ALTHOUGH RESERVES LOWER THAN GOI FEELS COMFORTABLE WITH (\$625 MILLION IN EARLY AUGUST) AND LIKELY TO CONTINUE TO DECLINE UNTIL SEPTEMBER, THEY ARE DEFINITELY NOT AS LOW AS RUMORED AND THE SHORT TERM SITUATION IS MANAGEABLE AND DEVELOPING ABOUT AS EXPECTED. THIS ASSESSMENT CONSISTENT WITH OUR UNDERSTANDING OF OVERALL BALANCE OF PAYMENTS DEVELOPMENTS. APPEARS LIKELY THAT UNFORESEEN POSITIVE AND NEGATIVE FACTORS AFFECTING EXPORTS AND IMPORTS WILL NEUTRALIZE ONE ANOTHER RESULTING IN CURRENT ACCOUNT DEFICIT FOR GOY FY 1975/76

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REMAINING ABOUT AS PROJECTED BY THE IBRD/IMF AT THE LAST IGGI

MEETING. FOR FY 75/76 PERTAMINA RELATED PAYMENTS ARE ESTIMATED AT \$1.5 BILLION, AND REFINANCING AVAILABILITY THOUGHT LIKELY TO BE LIMITED TO THE APPROXIMATELY \$1.0 BILLION BEING RAISED BY MORGAN GUARANTY ETAL. ALTHOUGH RUMORS OF OTHER MAJOR CREDIT OFFERINGS ARE SURFACING IN JAKARTA, TO EXTENT WE HAVE BEEN ABLE CHECK INTO THEM THEY HAVE BEEN WITHOUT SUBSTANCE. OVERALL PROSPECT IS FOR FOREIGN EXCHANGE RESERVES OF CENTRAL BANK TO REACH A MINIMUM OF \$300-\$400 MILLION IN SEPTEMBER AND THEN TO RISE DURING BALANCE OF INDONESIAN FISCAL YEAR REACHING A LEVEL IN MARCH 1976, SOMEWHAT LESS THAN \$921 MILLION LEVEL THAT EXISTED IN MARCH, 1975. END SUMMARY.

2. FROM A VARIETY OF SOURCES OVER PAST MONTH EMBASSY HAS BEEN HEARING RUMORS THAT INDONESIAN NET FOREIGN EXCHANGE RESERVES HAVE FALLEN SHARPLY FROM THEIR \$921 MILLION END OF MARCH LEVEL. FIGURES AS LOW AS \$150 MILLION FOR MID JULY HAVE BEEN CITED. GIVEN THAT \$575 MILLION UNDER MEDIUM TERM BANK LOANS WAS RECEIVED IN JUNE AND A \$475 MILLION CALTEX OIL TAX PAYMENT WAS RECEIVED IN EARLY JULY, A VERY LOW RESERVE LEVEL IN MID JULY WOULD HAVE INDICATED THAT ALARMINGLY ADVERSE AND UNFORESEEN FACTORS WERE AFFECTING THE INDONESIAN BALANCE OF PAYMENTS. SOURCES CLOSE TO GOI ECONOMIC MINISTRIES INDICATE THAT THE LOW RESERVE ESTIMATES ARE PROBABLY BASED ON AN INCORRECT INTERPRETATION OF INTERNAL BANK OF INDONESIA SUMMARY STATISTICS. (ONE OF THE MAIN REASONS THAT INCORRECT RESERVE ESTIMATES ARE FLOATING AROUND JAKARTA IS THE UNWILLINGNESS OF THE GOI TO RESUME PUBLICATION OF BALANCE OF PAYMENTS AND FOREIGN EXCHANGE DATA. IN THE ABSENCE OF COMPLETE, READILY AVAILABLE DATA, PEOPLE ARE USING WHATEVER PARTIAL INFORMATION THEY CAN COME UP WITH. WE UNDERSTAND THAT THE IMF IN WASHINGTON AND KUNH LOEB ETAL HAVE BEEN GIVEN COMPLETE STATISTICS BUT THIS INFORMATION IS NOT READILY AVAILABLE TO THE JAKARTA BANKING AND BUSINESS COMMUNITY.) WE BELIEVE THE MISINTERPRETATION ARISES BECAUSE THE CENTRAL BANK DOES NOT DISTINGUISH BETWEEN SHORT AND MEDIUM TERM LIABILITIES IN ITS SUMMARY FIGURES. THUS, WHEN NET FOREIGN ASSETS OF THE CENTRAL BANK ARE NOW CALCULATED BY FOLLOWING WHAT WAS THE CORRECT PAST PROCEDURE (SUBTRACTING TOTAL FOREIGN LIABILITIES FROM TOTAL FOREIGN ASSETS) ONE ARRIVES AT A NET RESERVE FIGURE THAT IS TOO LOW BY AN AMOUNT EQUAL TO THE NEW \$575 MILLION MEDIUM TERM BORROWING OF THE CENTRAL BANK. BY DEDUCTING \$575 MILLION FROM GROSS FOREIGN LIABILITIES A CORRECTED LIMITED OFFICIAL USE

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MID JULY NET RESERVE ESTIMATE OF \$725 MILLION IS ARRIVED AT RATHER THAN \$150 MILLION. ON THE SAME CORRECTED BASIS, NET RESERVES IN EARLY AUGUST WERE \$625 MILLION. ALTHOUGH WE DO NOT HAVE ACCESS TO THE GOI'S DETAILED SCHEDULE OF ANTICIPATED PAYMENTS OVER THE NEXT SEVERAL MONTHS, WE UNDERSTAND THAT RESERVES ARE CONTINUING THEIR DECLINE AND ARE THOUGHT LIKELY TO REACH THEIR MINIMUM IN SEPTEMBER WITH A GRADUAL INCREASE EXPECTED DURING THE BALANCE OF THE YEAR. ASSUMING THE NEXT MORGAN GUARANTY

LOAN PROGRESSES AS EXPECTED, THE MINIMUM RESERVE POSITION SHOULD EQUAL \$300-\$400 MILLION. THE THREE BANKING HOUSES ADVISING THE GOI ON ITS INTERNATIONAL BORROWING CONSIDER THE RESERVE POSITION TO BE PROCEEDING AS EXPECTED AND ARE NOT UNDULY CONCERNED ABOUT THE CURRENT SITUATION.

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INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 9804

INFO AMCONSUL HONG KONG

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SUBJECT: INDONESIA FINANCES

3. THESE HIGHER RESERVE LEVELS ARE CONSISTENT WITH THE LIMITED INFORMATION WE HAVE ON OVERALL DEVELOPMENTS IN THE BALANCE OF PAYMENTS. IN COMPARISON WITH THE IBRD/IMF ESTIMATES FOR GOI FY 75/76 PRESENTED AT THE LAST IGGI MEETING THE FOLLOWING REVISIONS APPEAR NECESSARY: NET OIL EARNINGS SHOULD BE REVISED DOWNWARD \$300 MILLION. (THIS ASSUMES OPEC PRICE ADJUSTMENTS THIS FALL WILL BE SIGNIFICANTLY GREATER IN OTHER COUNTRIES THAN IN INDONESIA AND THE RESULTING INCREASED COMPETITIVENESS OF INDONESIAN CRUDE WILL PERMIT INDONESIAN PRODUCTION TO RISE FROM THE CURRENT DEPRESSED LEVEL OF 1.2 MILLION BARRELS/DAY TO THE 1.5 MILLION BARRELS/DAY THAT HAD EARLIER BEEN FORESEEN.) PROJECTED 75/76 PAYMENTS FOR MAJOR COMMODITY IMPORTS HANDLED BY THE GOVERNMENT (RICE, WHEAT, SUGAR, FERTILIZER, AND COTTON) ARE DOWN \$900 MILLION FROM

EARLIER PROJECTIONS DUE TO A COMBINATION OF LOWER IMPORT NEEDS (SUBSTANTIAL OVERSTOCKING OF RICE AND FERTILIZER CURRENTLY EXISTS), LOWER PRICES, AND THE FACT THAT NEARLY \$400 MILLION IN FOREIGN EXCHANGE WAS TRANSFERRED FROM BANK INDONESIA PRIOR TO FY 1975/76 TO COVER FERTILIZER IMPORTS DURING FY 75/76---THEREBY LIMITED OFFICIAL USE

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REDUCING THE CURRENT YEAR'S FOREIGN EXCHANGE IMPACT OF FERTILIZER IMPORTS. THE PROJECTIONS PREPARED FOR IGGI SHOWED NON-OIL EXPORTS DECLINING 4 PERCENT, AND IMPORTS, OTHER THAN THOSE MAJOR ONES DISCUSSED ABOVE, INCREASING BY 28 PERCENT. IT IS NOW CLEAR THAT NON-OIL EXPORTS HAVE FALLEN CONSIDERABLY MORE THAN EXPECTED AND THAT OTHER IMPORTS MAY BE UP SOMEWHAT MORE THAN PROJECTED. THE EFFECT OF THESE LATTER TWO DEVELOPMENTS IS A NET INCREASE OF \$600 MILLION IN PROJECTED FOREIGN EXCHANGE PAYMENTS. IN TOTAL, THIS \$600 MILLION INCREASE IN PAYMENTS AND THE \$300 MILLION DECREASE IN OIL EARNINGS ARE BALANCED BY THE ANTICIPATED \$900 MILLION DECREASE IN PAYMENTS FOR MAJOR COMMODITY IMPORTS. THUS, THE CURRENT ACCOUNT DEFICIT ESTIMATED BY THE IBRD/IMF FOR IGGI OF \$1.0 BILLION REMAINS UNCHANGED.

4. WITH REGARD TO THE CAPITAL ACCOUNT, ESTIMATES PREPARED FOR IGGI (WHICH WERE NET OF PERTAMINA DEBT PAYMENT AND REFINANCING) SHOWED A SURPLUS OF \$1.4 BILLION. AS NOTED REFTEL, OUR BEST ESTIMATE OF 1975/76 PERTAMINA RELATED PAYMENTS IS \$1.5 BILLION. WITH REGARD TO PERTAMINA RELATED REFINANCING, \$575 MILLION HAS BEEN OBTAINED FROM MORGAN GUARANTY AND JAPANESE BANKING SOURCES, AND SOMETHING OF THE ORDER OF \$400 MILLION ADDITIONAL IS IN PROSPECT FROM THE SAME SOURCES. BEYOND THIS APPROXIMATELY \$1.0 BILLION OF RATHER FIRM FINANCING, THE JAKARTA PRESS AND RUMOR MILL RECENTLY HAS BEEN FULL OF VARIOUS BILLION-DOLLAR-PLUS LOAN POSSIBILITIES. TO THE EXTENT WE HAVE BEEN ABLE TO CHECK ON THESE RUMORS, THEY HAVE BEEN WITHOUT SUBSTANCE. A BILLION DOLLAR OFFER DESCRIBED AS BEING FROM A CALIFORNIA BANKING GROUP TURNED OUT TO HAVE ORIGINATED FROM A ONE-ROOM OFFICE WHERE THE PHONE HAD BEEN DISCONNECTED DUE TO NON-PAYMENT OF BILLS. DR. ABS, THE GERMAN FINANCIER WHO WAS INSTRUMENTAL IN THE 1966 RESCHEDULING OF INDONESIA'S DEBT, WAS RUMORED TO BE INVOLVED IN A POTENTIAL \$1.5 BILLION CREDIT TO PERTAMINA ON 15-20 YEAR REPAYMENT TERMS AT 8 PERCENT INTEREST. WHEN DR. ABS WAS ASKED ABOUT THIS BY GOI REPRESENTATIVES HE REPLIED THERE WAS NO TRUTH TO THE RUMORS AND THAT ALL HE HAD DONE WAS WRITE A SHORT, BASICALLY PRO FORMA LETTER TO IBNU STATING A GENERAL WILLINGNESS TO REVIEW ANY CREDIT PROPOSALS IBNU MIGHT WISH TO MAKE IN THE FUTURE. AS A FINAL EXAMPLE, FOLLOWING PRELIMINARY DISCUSSIONS BETWEEN GENERAL IBNU AND GERMAN GOVERNMENT OFFICIALS, THE FRG CONTACTED THE GOI IN EARLY MAY EXPRESSING INTEREST IN THE POSSIBILITY OF PROVIDING A BILLION DOLLAR CREDIT TO BE PAID FOR WITH FUTURE OIL DELIVERIES.

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THE GOI WAS UNWILLING TO DO THIS BECAUSE IT CONSIDERS THE UNENCUMBERED AVAILABILITY OF EARNINGS FROM FUTURE OIL EXPORTS TO BE THE BASIS ON WHICH IT IS ABLE TO ARRANGE MEDIUM TERM BANK LOANS. IN SUM, WE BELIEVE ABOUT \$1.0 BILLION TO BE THE MAXIMUM PERTAMINA-RELATED REFINANCING AVAILABLE DURING INDONESIAN FINANCIAL YEAR 1975/76. THIS, COUPLED WITH THE OTHER ELEMENTS OF THE CAPITAL ACCOUNT PLUS THE ANTICIPATED \$1.0 BILLION CURRENT ACCOUNT DEFICIT, LEADS TO A PROJECTED \$100 MILLION DECREASE IN FOREIGN EXCHANGE RESERVES DURING 1975/76.

5. ALTHOUGH THE CURRENT LEVEL OF FOREIGN EXCHANGE RESERVES IS LOWER THAN THE GOI FEELS COMFORTABLE WITH AND ALTHOUGH IT IS LIKELY TO DETERIORATE SOMEWHAT MORE DURING THE NEXT MONTH, WHEN PAYMENTS ASSOCIATED WITH PERTAMINA WILL BE RELATIVELY HEAVY, THE IMMEDIATE SITUATION IS NOT SERIOUSLY ALARMING AND APPEARS TO BE MANAGEABLE, AND RESERVE LEVEL WILL INCREASE FOLLOWING THIS EXPECTED SEPTEMBER MINIMUM. DECONTROL FOLLOWING 1/1/77.
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